

December 2009 Analysis of Revenue Collections

December Revenues

At the halfway point for fiscal year 2010, Department of Revenue tracked tax collections were down \$1.148 billion or -13.7% year-to-date. This is an improvement over November when collections were -15.4% year-to-date.

- Income taxes were down \$493 million or -11.5%.
- Net Sales and Use Tax collections decreased by \$449 million or -16.2%.
- Corporate Income Tax collections decreased \$87.6 million or -24.4%.
- Total Motor Fuel Tax collections declined \$73 million or -15.5%. Motor Fuel excise taxes were up by 2.1% suggesting that people are buying more gallons of gas.

Revenue Trajectory

As of December, we have now surpassed the \$1.5 billion shortfall mark which means that we will have to *grow* in future months to make budget (see Table 1). The current revenue estimate is based on a \$1.26 billion shortfall.

Table 1: FY2010 Estimated Shortfall

	DOR Tracked	All State General Funds (Incl. MFT)
FY09 Revenues YTD	\$8,400,807,000	\$8,941,124,183
FY10 Revenues YTD	\$7,251,810,000	\$7,666,992,222
Deficit	-\$1,148,997,000	-\$1,274,131,961
Growth Built into FY10 General Estimate (Over FY09) That Will Not Be Realized	-\$304,116,664	-\$227,585,390
Estimated FY2010 Amd. Shortfall	-\$1,453,113,664	-\$1,501,717,351
Bond Prospectus Shortfall Working Estimate	-\$1,232,225,974	-\$1,260,000,000
Difference from Estimated FY10 Amd Shortfall	-\$220,887,690	-\$241,717,351

Another way of looking at the budget is to consider monthly revenues relative to prior year patterns. Right now, the state is bringing in roughly the same amount of money on a monthly basis as it did in 2005 (see attached charts). If the state continues on this pattern, then the year end revenues will be around \$15.8 billion, around \$100 million more than the current revenue estimate of \$15.7 billion.

If we continue along a 2005 trajectory we should see around 0% month over month revenues in January and then positive numbers most of the last five months relative to FY09. Caution is warranted as the last six months are heavily dependent on strong holiday sales and on April income tax submissions.

A bit of good news this month is that income taxes, which make up approximately half of collections, saw an increase of \$47 million (or 6.3%) in month over month receipts.

Revenue Estimate

In July, the Governor issued a revised revenue estimate of approximately \$857 million below the FY10 budget as passed. This was paired with \$912 million in cuts to cover several FY10 shortfalls. In October, the State issued a bond prospectus that included a discussion of FY10 revenues. The prospectus indicated that the revenue decline is now expected to result in a \$1.26 billion shortfall from the FY10 budget.

The bond prospectus also gave a look at the Governor's thinking for FY2011. The Governor is projecting 3.9% growth in FY11 over the new revenue estimate for FY10 or -2.5% below FY09 actual revenues. In short, the state will fall \$1.26 billion from the budget as passed but will then recover around half of this in FY11.

Table 2: Revenue Estimates

	Dept of Revenue Tracked	All State General Funds (Incl. MFT)
FY09 Actual	\$15,625,304,936	\$16,766,661,805
FY2010		
FY10 Budget (HB119)	\$15,929,421,600	\$16,994,247,194
FY10 Revised Rev Estimate (Oct Bond Prospectus)	\$14,697,195,626	\$15,734,247,194
Difference from FY09 Actual	-\$928,109,310	-\$1,032,414,611
% Change from FY09 Actual	-5.9%	-6.2%
Difference from FY10 Budget - "Shortfall"		-\$1,260,000,000
FY2011		
FY11 Working Rev Estimate (Oct Bond Prospectus)	\$15,295,229,383	\$16,347,882,835
Difference from FY10 Revised Revenue Estimate		\$613,635,641
% Change from FY10 Revised Revenue Estimate		3.9%

The Table above shows the revenue estimates for both Department of Revenue tracked funds, which matches to the monthly press release from the Governor, and all state general funds, which matches to the actual revenue estimates reported in the bond prospectus and in the budget itself. These latter funds are reported in spreadsheets sent out by the Office of Treasury and Financial Services (OTFS) each month.

SBEO charts follow DOR tracked revenues since this is what is reported in the press.

Reserves

Currently, the state has \$271 million in reserves that have not been committed in the FY10 budget. Excluding the midyear adjustment of \$167.7 million, this is the equivalent of about 2 days of state operations. In FY2009 the state had 19 days of operations in reserves and in FY2008, 31 days.